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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Good News For Consumers . . .

Since nearly one-fifth of consumers' budgets is devoted to food and beverage purchases, it should be good news for shoppers that prices at the nation's grocery stores are expected to rise only modestly in 1985. Supplies of most foods should be plentiful: Crop output should rise about three percent on top of 1984's 26 percent increase, while red meat and poultry production will remain strong at about last year's level. But although this should ease the pressure on consumers' wallets, it will mean another rough year for the nation's farmers. Their cash incomes, adjusted for inflation, are expected to slip for the ninth time in the past 11 years, dropping to the lowest level in at least 40 years.

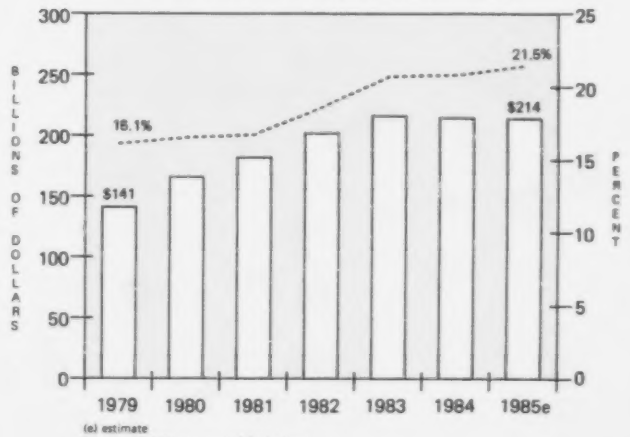
Retail food prices are expected to edge up this year, rising as little as two percent—one-half of 1984's nearly four percent increase. Holding prices down will be declining raw commodity prices at the farm level, which according to the United States Department of Agriculture (USDA), could fall as much as two percent, year-over-year. There may be bargains at the supermarket counter for some of the least processed foods such as poultry, eggs and fresh vegetables. For most foods, the rise in marketing costs will more than offset lower agricultural commodity prices—as can be seen from December's producer price index, which showed consumer foods rising by 0.5 percent. For example, cereal and bakery products' prices may rise as much as seven percent this year, despite sharply lower grain prices.

On average, only 26 cents of every dollar spent on food at grocery stores represents the farm value. The rest represents the marketing bill, which includes processing, packaging, transportation and distribution. The slower rise in business activity in 1985 compared with 1984 is likely to moderate demand for packaging and transportation, which posted the steepest price increases over the past year. Energy costs are expected to be held down by declining petroleum prices. However, labor costs—which account for nearly half the marketing costs may start inching up. Although emphasis on job security remains at the top of the list of labor's demands, unions may press some employers to restore concessions granted during the leaner years and maybe even to tack on a little bit more.

. . . But Not Such Good News . . .

The expected decline in agricultural prices does not bode well for farmers' already strained finances. Larger crop sales and higher livestock prices may lead to increased cash receipts, but expenses will probably rise at a faster clip. Government payments, which in 1983 and 1984 jumped primarily as a result of the Payment-in-Kind program, will be sharply reduced.

FARM SECTOR: TOTAL LIABILITIES (BAR) VS. DEBT AS A % OF ASSETS (DOT) (AS OF JAN. 1)



(e) estimate
Source: U.S. Department of Agriculture

The prospects for agricultural exports, which represent one-third of total domestic production, are not encouraging to farmers, either. While the outlook for economic growth of most of the major importers of U.S. agricultural products—the European Economic Community, Japan and Latin America—is favorable, large crop supplies outside the United States and strong competition from foreign exports because of the high value of the dollar will continue to limit trade. For example, record production is expected outside the United States for wheat, coarse grains, rice, soybeans and cotton. Thus, net farm incomes are likely to fall dramatically from 1984's inventory-boosted level. Net cash incomes, which do not take inventory swings into account, and thus are a more immediate indicator of farmers' buying power, are expected to fall for the second year in a row.

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. . . For Farmers And . . .

What is more, the farm sector's balance sheet continues to deteriorate. The hardest hit have been those farmers who borrowed heavily in the late 1970s and made substantial investments when livestock and crop prices surged upward, boosting their income expectations and bidding up the price of land. But only a few years later, with bumper harvests in other countries and the worldwide economic recession, their expectations were shattered.

In response to reduced farm profitability in general, and increased bankruptcies in particular, the amount of land available for sale increased, while higher interest rates cut buyer demand. As a result, the per-acre value of U.S. farmland dropped for the fourth consecutive year in 1984. At the beginning of this year, the value of real estate, which represents three-quarters of farmers' total assets, sank to $740 billion from nearly $830 billion four years before. Total assets fell by an estimated nine percent during this time period.

At the same time, interest rates spiked upward, affecting farmers with short-term debt or variable-rate loans who were previously virtually insulated from fluctuations in market interest rates. Overall debt jumped more than 50 percent between 1979 and 1984, swelling the proportion of debt to assets from 16.1 percent to an estimated 21.5 percent on

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/9/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	171.580	– .267	+ 9.222
Loans to Depository Inst.	2.062	– 1.475	+ 1.499
Float	1.258	– .792	– .688
Total Reserve Bank Credit	186.559	– 2.732	+13.060
Treasury Deposits with Federal Reserve Banks	3.490	– .543	+ .032
Currency in Circulation	182.796	– 1.106	+11.865
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.985	– 4.298	+ 1.799
	1/2/85		
Member Bank Reserves:			
Total Reserves Held	41.282	+ 1.684	+ 3.257
Excess (Deficiency)	1.268	+ .764	+ .310
Net Free Reserves	.217	+ .263	+ .478
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (12/31/84)	557.2	+ 3.7‡	+ 5.5‡
M2 (December '84)	2,375.5	+ 12.1	+ 8.2
M3 (December '84)	2,989.0	+ 13.4	+ 10.3
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/11/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.72%	7.97%	8.36%
* Federal Agencies	7.61	8.04	9.06
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.60	9.26
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	8.05	8.45	9.25

‡Finance Company Paper—Prime

5- 14 days	7.80%
15- 29 days	7.90
30- 59 days	7.90
60- 89 days	7.90
90-179 days	8.00
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances

Feb.	8.10%
Mar.	8.10
Apr.	8.10
May	8.15
Jun.	8.25
Jul.	8.20

‡Industrial Paper—Prime

30- 89 days	7.90%
90-120 days	7.90

†Federal Funds Effective Rate 8.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,645	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.6	7.1	6.8
Change in Consumer Prices*	Nov '84	2.4%	4.8%	4.8%
Change in Producer Prices*	Dec '84n	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Dec '84n	106,273	105,932r	103,029r
Unemployment as % of Civilian Labor Force†	Dec '84n	7.2%	7.1%r	8.2%
Personal Income*	Nov '84	$ 3,100	$ 3,079	$ 2,834
Leading Indicators Composite Index (1967=100)†	Nov '84	166.6	164.5	162.5
Industrial Production Index (1967=100) †	Nov '84	165.0	164.3	155.3
Net Change in Consumer Installment Credit †	Nov '84n	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Nov '84	–$ 9.94	–$ 9.18	–$ 7.12
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Nov '84	1,528	1,538	1,730
New Construction Expenditures*	Nov '84	$ 322.2	$ 318.8	$ 267.0
Total Business Inventories †	Oct '84	$ 565.3	$ 560.6	$ 509.2
Total Business Sales †	Oct '84	$ 410.8	$ 410.5	$ 382.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

January 1, 1985 (see chart on page 1).

. . . Their Suppliers

Declining farm incomes as well as high levels of farm debt will undoubtedly continue to sap U.S. farmers' buying power for farm inputs. The Farm and Industrial Equipment Institute reports that in 1984, farm tractor sales were down six percent in the three months ending in November. That left sales for the first 11 months of this year down 0.4 percent, year-over-year, more than 45 percent below the most recent peak reached in 1979. While sales of the less profitable and often imported smaller tractors (under 40 horsepower) were up nearly ten percent in the first 11 months of the year, demand for larger tractors slid by seven percent. Sales of harvesters plunged by 16 percent, combines by nine percent and balers by 8.5 percent.

Since manufacturers were expecting double-digit sales increases for the year, they cranked up production lines with the result that their warehouses were bulging with record inventories of unsold tractors. By August, they represented more than 14 months' supply. In turn, this forced manufacturers to idle many plants and lay off workers in an attempt to bring supplies in line with demand. So while the nation's employment situation has been improving, farm machinery manufacturers cut their payrolls. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (12/26/84)	161,131	+ 489	+12,866
New York City (1/2/85)	35,079	+ 346	+ 4,294
Commercial Paper (1/2/85)	233,182	– 4,792	+49,312

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/26/84)	251,572	+ 863	+ 27,715
New York City (1/2/85)	62,647	– 991	+ 3,363

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/26/84)	657,026	+ 2,305	+ 103,898
New York City (1/2/85)	146,375	– 2,554	+ 15,102

Financial Markets

	Friday 1/11/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.03%	– .02	– 1.02
180-Day Bills†	8.51	– .09	– 1.16
Longest Bills†	9.10	– .03	– .57
Recent Issues:			
9⅞s 12/31/86	10.02	–0–	
10⅝s 12/31/88	10.71	– .15	
11⅝s 11/15/94	11.55	– .05	
11¾s 11/15/14	11.58	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (1/10/85)	9.60%	– .27	– .07
Blue List Total ($ Million)	$1,382	–$ 429	+ $238
30-Day Visible Supply ($ Million)	$1,536	–$ 572	– $920
Total	$2,918	–$1,001	– $682
Corporates:			
Moody's Aa Composite (1/10/85)	12.43%	– .12	– .28
30-Day Visible Supply ($ Million)	$ 561	+$ 211	– $ 39
Stocks:			
Dow-Jones Averages:			
Industrials	1,218.09	+ 33.13	– 52.01
Transportation	572.52	+ 19.49	– 30.44
Utilities	147.26	+ .72	+ 12.96
65 Stocks	493.61	+ 12.68	– 14.15
Standard and Poor's 500 Stocks	167.91	+ 4.23	+ .89
N.Y.S.E. Composite Index	96.99	+ 2.39	+ .33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	102,164	+23,554	– 1,280

* 46% Taxable equivalent 17.78%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/11/85	Week Ago
Overnight	8.06%	8.19%
1 month	8.13	8.38
3 month	8.31	8.63
6 month	8.81	9.06
1 year	9.56	9.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.40%
Long Term (7 to 15 yrs.)	11.65	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/11/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01583	63.16
Canada	.7571	1.3209
Denmark	.08834	11.3200
France	.1036	9.6550
Germany	.3171	3.1540
Italy	.0005145	1943.50
Japan	.003941	253.75
Mexico	.004386	228.00
Netherlands	.2807	3.5623
Switzerland	.3777	2.6478
U.K.	1.1253	.8887

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With 25 residential and 3 commercial loan offices across the country, MHMC has the capability to meet the needs of our customers on a national basis. Though rapid growth has propelled us to a leadership role in our industry, our game plan remains basic: to meet the real estate financing needs of our customers and investors.

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